ATRA OPPOSES SB1280

Unfunded Pension Liability Is Not Long-Term Debt

Pension Unfunded Liability

It is well known that Arizona and its local governments have significant unfunded pension liability, particularly under the Public Safety Personnel Retirement System (PSPRS). Pension liabilities are the result of lower payments to the systems than is required to fund the myriad of benefits provided to its members. Under PSPRS alone, the total unfunded liability in the system has more than doubled over the last decade to nearly $18 billion. Collectively, Arizona's four pension plans have accumulated unfunded liability in excess of $26 billion.

Constitutional Expenditure Limitations

Approved by the voters in 1980, Article 9, Section 20 of the Arizona Constitution limits the annual expenditures for each county, city and town. The Constitution specifically limits the amount of expenditures that each jurisdiction may spend based on the amount of "local revenues," which are defined to include "all monies, revenues, funds, fees…property and receipts of any kind," adjusted annually by population and inflation. Deducted from these "local revenues" are "any amounts or property received from the issuance or incurrence of bonds or other long-term obligations issued or incurred for a specific purpose."

The Constitution allows local governments to seek voter approval to increase their expenditure limits above population and inflation growth if they so choose. Cities regularly seek voter approval from their constituents to increase their spending limits. In 2018, La Paz County sought and received approval from its voters to increase its expenditure limit. Maricopa County has the same authority to ask its voters to exceed its expenditure limit but has lacked the willingness to do so.

Maricopa County

Maricopa County has been issuing long-term debt for years to manage its expenditure limit problem rather than seek approval from its voters to exceed its expenditure limit. Since FY 2016, the County started taking a more aggressive view of what constitutes "long-term debt" and began excluding its unfunded liability pension costs from its expenditure limit.

The Office of the Auditor General (OAG) rejected the county's position, stating that unfunded pension liabilities are not excludable under the expenditure limit. The OAG made the distinction that long-term debt is the result of "amounts or property received" by the entity that in turn incurs a debt obligation. In this case, the County doesn't receive property and the unfunded pension liability results when the required pension contributions and investment earnings of the fund are inadequate to cover employee benefits. The OAG warned that if all political subdivisions developed the same viewpoint as Maricopa County, then contracts could be structured to exceed one-year and be considered a long-term obligation, rendering the "constitutional expenditure limitation meaningless." The Attorney General Opinion echoed the OAGs position, which was released in August of last year.

Basis for ATRAs Opposition

SB1280 attempts a statutory fix to Maricopa County's constitutional dilemma. Specifically, SB1280 states that any public pension unfunded accrued liability is a long-term obligation under the constitutional expenditure limits of counties, cities, and towns. If successful, SB1280 will allow these local jurisdictions to exclude the unfunded accrued pension liability of ASRS, PSPRS, EORP, and CORP from their constitutional expenditure limits. Thus, rendering the constitutional expenditure limits meaningless.

ATRA ASKS LAWMAKERS TO VOTE NO ON SB1280!